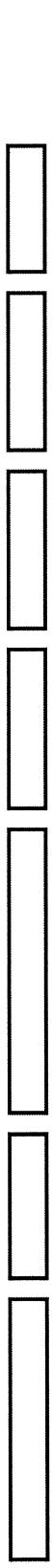


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EXHIBIT

1

Linden Lab Files Response to Complaint

Friday June 29th 2007 at 1:34 PM PDT by: Bobin Linden

On June 28, 2007, Linden Lab and its Chief Executive Officer, Philip Rosedale, filed their response to the complaint of Marc Bragg in the federal district court in Philadelphia, Pennsylvania, denying Mr. Bragg's allegations, and asserting counterclaims on behalf of Linden Lab against Mr. Bragg for computer fraud, breach of contract, and other claims, arising from certain activity that led to his being suspended from participating in Second Life.

Mr. Bragg, a Second Life Resident under the user name “Marc Woebegone,” had sued Linden Lab and Rosedale to recover “virtual land, property and items that were in his account” when it was suspended, and for money damages and other relief.

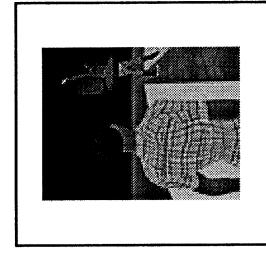
Linden Lab stated in its answer: In his complaint, Bragg attempts to cast this as a case with broad implications about whether ‘virtual land’ – actually, access to computing resources that enable a virtual representation of land in a three-dimensional online digital ‘world’ – is subject to the laws governing real property. That is not what this case is about. It is a dispute about whether an online service may suspend a user from that service for engaging in a fraudulent scheme to obtain money, to the detriment of the service and its user.

<http://blog.secondlife.com/2007/06/29/linden-lab-files-response-to-complaint/>

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community.”

In its counterclaims, Linden Lab alleged that “Bragg – who is a licensed attorney – and his confederates, knowingly and with intent to defraud, without Linden’s permission, obtained, used and altered data and computer software in a deliberate exploit to gain unauthorized access to Linden’s server software in order to manipulate and subvert Linden’s standard system for making so-called “virtual land” available to its users through its land auction system.”

At Linden Lab also alleged that “The objective of Bragg’s scheme was to obtain access to ‘virtual land’ that was scheduled to be auctioned by Linden in the future and thus before it was available to any other users, and to acquire it for as little as one U.S. dollar rather than whatever winning bid (in excess of the minimum opening bid of U.S. \$1,000.00) might have resulted from a legitimate auction,” and that “After acquiring the ‘virtual land’ through this fraudulent scheme, Bragg intended to subdivide it, sell it to other Second Life users, and potentially obtain thousands of dollars in U.S. funds in ill-gotten profit.”

In addition, Linden Lab alleged that: “When Linden told Bragg that it had placed his account on hold pending their investigation of his activity, Bragg threatened to sue Linden, in an attempt to dissuade Linden from continuing its investigation into his fraudulent scheme. When Linden did not capitulate in response to Bragg’s threats and remove the hold on his account, he immediately retaliated by bringing suit and – incredibly – demanding that Linden refund him his “expectation interest in the profit” he hoped to gain by reselling the fraudulently-purchased ‘virtual land.’”

Use of the exploit not only harmed Linden Lab, but Second Life Residents as well, by disrupting the in-world economy. If those who used the exploit had succeeded, not only would have they profited unfairly, but they also could have sold their parcels at below-market prices and still made a profit, putting legitimate sellers at a

disadvantage.

Consistent with the goals of its Community Standards and the provisions of its Terms of Service, Second Life is designed to be a safe environment where users can express themselves, be creative, and develop safe and legitimate relationships and businesses. Mr. Bragg's use of the exploit was contrary to the goals of the Community Standards and violated the Terms of Service.

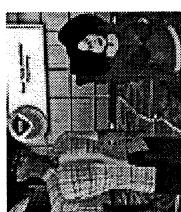
How was Linden really harmed by what Bragg did?

What Bragg did undermined the integrity of the Second Life economy. Other Residents reasonably expect that Second Life's economic systems will work fairly and transparently. The use of the exploit undermines that expectation, and causes loss of good will among Residents. In addition, Linden was required to spend time and resources investigating and addressing the scheme, and the federal and California computer fraud laws provide that companies who are the victims of schemes like this are entitled to recover damages for those kinds of losses.

What about Bragg's claim that Linden "stole" his money and his virtual property?

In fact, the money that was in his account at the time it was suspended is still there. Linden was obliged to mitigate any losses resulting from Bragg's suspension, so instead of leaving Bragg's "virtual land" in his account and causing him to incur monthly land use fees (or "tier charges"), Linden recovered it and auctioned it off to other users, in accordance with the Terms of Service. Now that it has been determined that the case will be decided in federal court rather than in arbitration, Linden has asked the court to hold the funds that were in Bragg's account at the time it was suspended and the proceeds from the sale of the "virtual land" in that account, pending resolution of the dispute.

Why didn't Linden return Bragg's money and the proceeds from



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the sale of his property when he was suspended?

Bragg filed suit the very day after his account was suspended due to the irregular auction activity in his account. At that point the parties were in a legal dispute. The court will decide what happens to the money and the proceeds.

Because this dispute is still in progress, we will be offering no further comments at this time.

» What's the Linden Village?

This entry was posted on Friday, June 29th, 2007 at 1:34 PM PDT and is filed under Announcements & News, Community. You can follow any responses to this entry through the RSS 2.0 feed. Both comments and pings are currently closed.

101 Responses to “Linden Lab Files Response to Complaint”

- .. 1 *Davina Glitter* Says:
June 29th, 2007 at 1:43 PM PDT

Are auctions still suspended? Will people who purchased land from this person have it repossessed?

-). 2 *The XO* Says:
June 29th, 2007 at 1:48 PM PDT

Fraud is fraud no matter if it's "virtual" fraud or not. This was more than virtual fraud - it actually could/would earn/generate real RL revenue.

Mr Bragg should be gracious and accept the fact he got caught with his fingers in the cookie jar and leave it at that! Looks like his "virtual" greed knows no limits here!

Well done LL - another leech kicked off the grid! You got my vote!